



OFFICE OF THE COUNTY AUDITOR INTEROFFICE MEMORANDUM

TO: All Council Members
FROM: Lauren M. Smelkinson, County Auditor
DATE: December 10, 2013
SUBJECT: Addendum to Council Meeting Notes

Please find attached an addendum (Bill 62-13 and FM-6 & 7) to the Council Meeting Notes issued December 5, 2013.

These items will be discussed at the December 10, 2013 work session for the December 16, 2013 Council meeting.

Attachment

cc: notes distribution list

Bill 62-13**Council District(s) 4**

Mr. Quirk (By Req.)

Office of Budget and Finance

Expansion of the Owings Mills Town Center Development District

The Administration is requesting approval of legislation that expands the Owings Mills Town Center Development District to include a 12.9-acre contiguous parcel known as the North Parcel. The Development District was established by Bill 103-10, passed by the Council on November 15, 2010. Under the proposed legislation, the North Parcel is designated as a “transit-oriented development,” a “development district,” and a “special taxing district” along with the existing Development District, known as the South Parcel. The legislation authorizes the expanded use of the tax increment fund, into which tax revenues resulting from the increased assessment value of the North Parcel since January 1, 2012 are to be placed. The legislation further authorizes the levy and collection of one or more special taxes on property within the North Parcel special taxing district. The tax increment and special tax revenues will secure debt to be issued by the Maryland Economic Development Corporation (MEDCO) in an aggregate principal amount not to exceed the lesser of \$97,100,000 or the amount that, when added to the aggregate principal amount of the bonds issued for the South Parcel, does not exceed \$135,000,000, in order to finance public infrastructure for the development and will provide for payment of operating and maintenance costs for development infrastructure improvements. The legislation also extends the sunset date from December 31, 2013 to December 31, 2016 for the issuance of bonds pursuant to Bill 103-10.

Fiscal Summary

The estimated net present value of property tax revenue to be dedicated to the development’s tax increment and special tax funds over the estimated 30-year term of the bonds is unchanged and totals approximately \$283.6 million. The County’s estimated capital contribution to the development for garages and public infrastructure, excluding the County library/college building, totals \$13,100,000. Additionally, the County has not collected property taxes on either the South Parcel or the North Parcel since the inception of the developer’s ground lease with the State in 2002; an estimate of the amount of foregone County property tax revenues totaled \$1.6 million in 2010 (an updated estimate is unavailable).

Analysis

Tax increment financing (TIF) is a financing tool that allows local governments to capture new tax revenues generated within a designated area (the TIF district) and to reinvest these revenues for development within that area. This outcome is achieved by designating a base level (e.g., pre-development level) of tax revenue to be generated by the TIF district for a number of years. Over that time, revenues at and below the pre-development level continue to serve the same purposes as before, while the growth in tax revenues, the “tax increment,” is applied to the costs of infrastructure and other improvements that advance the development goals of the particular TIF program. Thus, in theory, the new development, which drives the growth in revenues, pays for itself.

The proposed legislation concerns property upon which Owings Mills Transit, LLC (OMT) has held a ground lease from the Maryland Transit Administration since 2002. The legislation expands the area in which TIF can be used and levies a special tax to enable the public infrastructure improvements that are planned for the North Parcel property and to pay related administrative, operating, and maintenance costs. The public infrastructure improvements are to be bond-funded by the Maryland Economic Development Corporation (MEDCO); the debt service on the MEDCO bonds will be paid from the expanded authorization of the tax increment and the special tax funds. Specifically, the legislation states that the tax increment on real property located in the North Parcel shall be paid to the County’s tax increment fund. The legislation also authorizes the County Executive to establish one or more North special tax funds, one of which may be dedicated solely to the payment of certain operating and maintenance costs, and authorizes the pledge by the County under one or more agreements that amounts in the tax increment fund and special tax funds shall be “paid over” to secure one or more series of bonds or other indebtedness to be issued by MEDCO in an aggregate principal amount not to exceed the lesser of \$97,100,000 or the amount that, when added to the aggregate principal amount of the bonds issued for the South Parcel, does not exceed \$135,000,000.

Real property taxes to be paid to the County within the North Parcel are to be divided, with the pre-development portion, as of January 1, 2012, to be paid into the County’s General Fund and the remaining portion to be paid into the Tax Increment Fund. The legislation levies and imposes the “Owings Mills Town Center North Special Tax” upon all real property within the North Parcel “unless exempted by law or by the provisions hereof” in an amount sufficient to provide for debt service on the North Parcel bonds (and any associated refunded bonds), as well as North Parcel operating and maintenance costs, from the first tax year following bond

issuance until the bonds have been paid and all amounts payable under the County's pledge agreements have been satisfied.

The legislation also vests in the County Executive the power to approve, by Executive Order, various other provisions, including various terms relating to financing the TIF debt and the rate and method of apportioning the special taxes. The legislation also authorizes the County Executive to appoint or approve bond counsel and a financial advisor to the County in connection with each issuance of the bonds. Further, the legislation authorizes the County Executive to make agreements or covenants relating to the investment of the proceeds of any TIF bonds that are tax-exempt, to claim related cash subsidies, and to designate and expend such proceeds. Finally, the legislation states: "Without limiting the generality of the foregoing, the County Executive is hereby authorized from time to time after the issuance of North Parcel Bonds or South Parcel Bonds to take any action required or permitted to be taken by or on behalf of the County under any trust agreement or other document or instrument executed and delivered in connection therewith, including (without limitation) providing any consent, approval or direction required or permitted thereunder and entering into any amendment of or supplement to any of the foregoing, subject to the requirements of the Enabling Acts and any other agreement by which the County is bound."

The authority provided under Bill 103-10 expires in the event that no TIF bonds have been issued for the development by December 31, 2013. Bill 62-13 extends this sunset date to December 31, 2016. The Office advised that this extension was necessitated by adverse financial market conditions and the resulting negotiations to adjust the project to a viable transaction structure capable of attracting investment for both public infrastructure and privately-owned project elements. With the affirmative vote of five members of the County Council, Bill 62-13 will take effect December 29, 2013.

FM-6 (Ground Lease)**Council District(s) 4**

Department of Permits, Approvals and Inspections

502 Pleasant Hill Road

The Administration is requesting approval of a ground lease with Dellcrest Properties 4, LLC (the tenant) for an unimproved 0.73-acre parcel located at 502 Pleasant Hill Road in Owings Mills. The County originally acquired the property for the construction of Dolfield Boulevard and no longer has use for it. The lease commences on the first day of the first month following the date on which the County gives the tenant written notice that the Council has approved the lease, continues for 5 years, and will automatically renew for one additional 5-year term. The lease also provides the tenant the option to purchase the property pursuant to Section 3-9-107(c) of the Baltimore County Code. The County will charge base rent of \$7,200 per year in the initial 5-year term and \$7,920 per year in the 5-year renewal term, for a total of \$75,600 in rent charges over the entire 10-year term of the lease, including the renewal term. See Exhibit A.

Fiscal Summary

Annual rent totals \$7,200 in the initial 5-year term (or \$36,000) and totals \$7,920 in the 5-year renewal term (or \$39,600), for a total of \$75,600 in rent charges over the entire 10-year term of the lease, including the renewal term. The tenant will also be responsible for all maintenance costs, utilities, services, fees, and taxes related to the property; taxes related to the property total \$0 and other such costs are unknown.

Analysis

The County property to be leased is an unimproved 0.73-acre parcel located at 502 Pleasant Hill Road in Owings Mills and situated between Dolfield Boulevard and property owned by the tenant. The County originally purchased the property for the construction of Dolfield Boulevard,

and now the County has no use for the property. The Department advised that the tenant's intended use of the property is not known.

The term of the lease commences on the first day of the first month following the date on which the County gives the tenant written notice that the Council has approved the lease, continues for 5 years, and will automatically renew for one additional 5-year term. The County will charge the tenant base rent of \$7,200 per year in the initial term and \$7,920 per year in the renewal term, for a total of \$75,600 in rent charges over the entire 10-year term of the lease, including the renewal term. The tenant may, at its expense, construct improvements on the premises. The tenant will also be responsible for all maintenance costs, utilities, services, fees, and taxes related to the property; the Administration advised that taxes related to the property total \$0 and other such costs are unknown.

The lease also provides the tenant with the option to purchase the property pursuant to Section 3-9-107(c) of the Baltimore County Code. This section states that leased property that has been declared to be surplus may be sold to a lessee who has leased the property continuously for a period of not less than 2 years before the property was declared surplus. Accordingly, the lease provides that within 5 days after the second anniversary of its signing, the County will initiate the process of declaring the property to be surplus. Once this process is completed, the tenant will have the option to purchase the property. The purchase price will be determined based on two independent appraisals of the property, and will be discounted by the total amount of rent paid under this lease up to the date of closing as well as any cost to complete any required environmental remediation on the property. The Department advised that there is no indication that environmental remediation will be required.

The County acquired this property, along with a 0.414-acre adjacent area, from Eric E. Schuster for a purchase price of \$500,000. The County has incorporated the adjacent area into the right-of-way for Dolfield Boulevard, and has no use for this remaining 0.73-acre parcel.

EXECUTIVE SUMMARY

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| PROGRAM TITLE: | Ground Lease–502 Pleasant Hill Road |
| PROJECT NO.: | N/A |
| FISCAL MATTER: | Lease Agreement with option to purchase |
| PROPERTY OWNERS: | Baltimore County, Maryland |
| PROPERTY INTEREST TO BE CONVEYED: | Leasehold interest in parcel containing 31,813 sq. ft. (0.730 acre) with an option to purchase |
| LOCATION: | 502 Pleasant Hill Road Owings Mill, Maryland 21117 |
| CONSIDERATION | \$7,200.00 per year for the initial five year term with option to renew at \$7,920.00 per year for an additional five years, and an option to purchase pursuant to Baltimore County Code 3-9-107(c) |
| PURPOSE OF PROJECT: | To obtain County Council approval of a lease with an option to purchase a 31,813 sq. ft. parcel located at 502 Pleasant Hill Road to Dellcrest Properties 4, LLC, an adjacent property owner. The option to purchase is subject to Code requirements for the surplus of property, including appraisal. There were no objections to the lease by any County agencies. This is an unimproved property that was originally acquired for the construction of Dolfield Boulevard. |
| LIMITS OF PROJECT: | 502 Pleasant Hill Road |

Prepared By: Department of Permits, Approvals, &
Inspections

FM-7 (Ground Lease)**Council District(s) 5**

Department of Permits, Approvals and Inspections

301 Washington Avenue

The Administration is requesting approval of a ground lease with Towson Row RP, LLC (the tenant) for a 0.395-acre parcel located at 301 Washington Avenue in Towson. The property is improved with a detached multi-story building and was previously used by the Department of Recreation and Parks. The lease commences on the first day of the first month following the date on which the County gives the tenant written notice that the Council has approved the lease, continues for 5 years, and will automatically renew for three additional 5-year terms. The lease also provides the tenant the option to purchase the property pursuant to Section 3-9-107(c) of the Baltimore County Code. The County will charge base rent of \$85,750 per year in the initial 5-year term, and in each renewal term the annual rent will increase by 10% over the annual rent in the previous term, for a total of \$1,989,829 in rent charges over the entire 20-year term of the lease, including the renewal terms. However, the lease provides that rent payments will be reduced by all documented costs to demolish the Recreation and Parks Building as well as to perform any required environmental remediation within the building or on the property. See Exhibit A.

Fiscal Summary

Annual rent totals \$85,750 in the initial 5-year term and increases by 10% over the annual rent in the previous term in each renewal term, for a total of \$1,989,829 in rent charges over the entire 20-year term of the lease, including the renewal terms. However, rent payments will be reduced by all documented costs to demolish the Recreation and Parks Building as well as to perform any required environmental remediation within the building or on the property. The tenant will also be responsible for all maintenance costs, utilities, services, fees, and taxes related to the property; taxes related to the property total \$0 and other such costs are unknown.

Analysis

The County property to be leased is a 0.395-acre parcel located at 301 Washington Avenue in Towson. The property is improved with a detached multi-story building known as the Recreation and Parks Building, which is currently vacant and was previously used as a County office building. The tenant intends to use the property for the 1 million square foot, \$300 million Towson Row mixed-use development, which will be built on 5 acres bounded by York Road, Towsontown Boulevard, and Chesapeake and Susquehanna Avenues.

The term of the lease commences on the first day of the first month following the date on which the County gives the tenant written notice that the Council has approved the lease, continues for 5 years, and will automatically renew for three additional 5-year terms. The County will charge the tenant base rent of \$85,750 per year in the initial 5-year term, and in each renewal term the annual rent will increase by 10% over the annual rent in the previous term, for a total of \$1,989,829 in rent charges over the entire 20-year term of the lease, including the renewal terms. The lease provides that rent payments will be reduced by all documented costs to demolish the Recreation and Parks Building as well as to perform any required environmental remediation within the building or on the property. The Department advised that there is no indication that environmental remediation will be required. The tenant may, at its expense, construct improvements on the premises. The tenant will also be responsible for all maintenance costs, utilities, services, fees, and taxes related to the property; the Administration advised that taxes related to the property total \$0 and other such costs are unknown.

The lease also provides the tenant with the option to purchase the property pursuant to Section 3-9-107(c) of the Baltimore County Code. This section states that leased property that has been declared to be surplus may be sold to a lessee who has leased the property continuously for a period of not less than 2 years before the property was declared surplus. Accordingly, the lease provides that within 60 days after the second anniversary of its signing, the County will initiate the process of declaring the property to be surplus. Once this process is completed, the tenant will have the option to purchase the property. The purchase price will be determined based on two independent appraisals of the property, and will be discounted by all documented costs to demolish the Recreation and Parks Building and to perform any required environmental remediation within the building or on the property in excess of the value of rent offsets. If the amount of rent owed by the tenant under this lease up to the date of closing exceeds these documented costs, then the purchase price will also be discounted by the total amount of rent actually paid.

Everett, Benfield LLC, consultant appraiser, completed an appraisal of the property in September 2013 and determined the fair market value to be \$1,225,000. This amount represents the value of the property after the discount allowed for the cost of demolishing the existing building, which is estimated at \$325,000. After review and analysis, Robert W. Kline, review appraiser, concurred with the appraisal, recommending the respective amount as fair market value for the property. The Department advised that the purpose of this appraisal was to establish the market value of the property as a tool for determining the lease terms. The Department further advised that it will still obtain the two required independent appraisals prior to selling the property.

EXECUTIVE SUMMARY

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| PROGRAM TITLE: | Ground Lease – 301 Washington Avenue |
| PROJECT NO.: | N/A |
| FISCAL MATTER: | Lease Agreement with option to purchase |
| PROPERTY OWNERS: | Baltimore County, Maryland |
| PROPERTY INTEREST TO BE CONVEYED: | Leasehold interest in parcel containing 17,200 sq. ft. (0.395 acre) +/- with an option to purchase |
| LOCATION: | 301 Washington Avenue Towson, Maryland 21204 |
| CONSIDERATION | \$85,750.00 per year for the initial five year term with option to renew for three additional five year terms at a 10% increase over the Annual Rent in the prior term, and an option to purchase pursuant to Baltimore County Code 3-9-107(c) |
| PURPOSE OF PROJECT: | To obtain County Council approval of a lease with an option to purchase a 17,206 sq. ft. parcel located at 301 Washington Avenue to Towson ROW RP, LLC. The option to purchase is subject to Code requirements for the surplus of property, including appraisal. There were no objections to the lease by any County agencies. This was formerly used for the Department of Recreation and Parks. |
| LIMITS OF PROJECT: | 301 Washington Avenue |

Prepared By: Department of Permits, Approvals, &
Inspections